ISLINGTON

Resources Directorate
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Report of: Executive Member for Finance and Performance

Meeting of		**Date**	**Agenda Item**	**Ward(s)**
Policy and Performance Scrutiny Committee		4 November 2021		All
	~~Exempt~~		Non-exempt	

SCRUTINY REVIEW: THE IMPACT OF COVID-19 ON THE COUNCIL'S FINANCES – BRIEFING ON AUTUMN BUDGET AND SPENDING REVIEW 2021

1. SYNOPSIS

1.1. The Chancellor of the Exchequer announced the Autumn Budget and Spending Review 2021 on 27 October 2021. This set out aggregate spending plans by government department, including local government, for the three years 2022/23 to 2024/25. Funding allocations by individual local authority remain unknown, and there is currently no reliable basis to forecast such allocations.

1.2. The Office for Budget Responsibility's (OBR) economic forecasts, published alongside the government announcements, show an improvement compared to those in March 2021. The successful vaccine rollout and consumers' and businesses' adaptability to public health restrictions has allowed faster than expected recovery. However, domestic and international markets have suffered from supply constraints, exacerbated by changes following the UK Exit from the EU.

1.3. On the face of it, the Spending Review is good news for local government and better than feared. The balance appears to have shifted towards additional government grant to fund spending pressures with proportionately less reliance on council tax increases. However, it does still assume that councils such as Islington will increase council tax by 2.99% per annum (1.99% core council tax, 1% adult social care precept).

1.4. The impact on the council's funding for the 2022/23 financial year will not be known until the Provisional Local Government Finance Settlement. The government's own target date for the provisional settlement is 5 December 2021, however the target date has not been met in previous years.

1.5. The additional grant funding for local government announced will be needed to help bridge estimated net budget pressures in the council's Medium-Term Financial Strategy. This includes increased Employer National Insurance Contributions, National/London Living Wage increases, and other unavoidable cost increases as a result of government policy, high inflation and the impact of COVID-19. It is expected that the council will still need to deliver significant budget savings over the next three years in order to deliver a balanced budget.

1.6. Whilst a 3-year Spending Review (2022/23 to 2024/25) has been announced, based on precedent it is likely that government spending plans will continue to be revised over this period. It is currently unclear as to whether the 2022/23 local government finance settlement will be a 1-year or 3-year funding settlement.

1.7. There has been no update on local government funding reforms (namely the Fair Funding Review and business rates retention reset). It is currently assumed that these have been pushed back to at least 2023/24. However, this remains a significant uncertainty for London boroughs such as Islington who stood to lose out under the previous Fair Funding Review proposals.

RECOMMENDATIONS

1.8. To note this high-level summary of the Autumn Budget and Spending Review announcement in terms of the potential impact on local government and the council.

2. ECONOMIC FORECASTS

2.1. The economy is expected to grow by 6.5% in 2021 (2.4% higher than forecast in March 2021). Future year growth is forecast at 6.0% in 2022, 2.1% in 2023 and 1.3% in 2024.

2.2. Inflation (Consumer Price Index) is forecast to reach 4.4% in the second quarter of 2022 (2.6% higher than forecast in March 2021). The near-term spike in inflation next year is expected to be relatively short lived, with inflation returning to the 2% target in 2024.

2.3. The economy is expected to regain its pre-pandemic size by around the end of 2021 (previously mid 2022). Economic scarring from the pandemic is forecast at 2% (down from 3% in March 2021 forecast).

2.4. Unemployment is now predicted to peak at 5.25% (1.25% less than forecast in March 2021). Vacancies have reached a record high of 1.1 million. However, the share of unemployed people who are classified as long-term unemployed has continued to rise and is now at a five-year high at almost 30% of the unemployed.

2.5. Lower borrowing over the forecast period means that public sector net debt is now forecast to peak below 100% of GDP at 98.2% this year.

2.6. New fiscal rules set out in a draft 'Charter for Budget Responsibility have been announced, including:

- Underlying public sector net debt as a percentage of GDP must be falling by the third year of the rolling forecast period.
- The state should only borrow to invest, with everyday spending funded from taxation.
- To keep public sector net investment at or below 3% of GDP on average over a five-year forecast period.
- To contain welfare spending, excluding the state pension, under a cap to be set by the Treasury.

3. KEY ANNOUNCEMENTS FOR LOCAL GOVERNMENT FUNDING

3.1. Local authority core spending power (CSP) is the government's measure of the total funding available to councils including assumed council tax increases.

3.2. It was announced that CSP will increase by an average of 3% per annum in real terms over the Spending Review period. However, this includes additional funding for the previously announced reforms to Adult Social Care that are due to be implemented from October 2023. Excluding the ASC reform funding, it is estimated that the like-for-like CSP increase equates to around 1% per annum in real terms. If high inflation persists for longer and local government funding is not adjusted accordingly, this would equate to lower real terms funding increases or potentially real terms cuts.

3.3. The Spending Review falls considerably short of rectifying government funding cuts to councils over the past decade. This is illustrated by the chart below. The chart shows the percentage change in core government spending (excluding COVID-19) by government department from 2009/10 to 2021/22. Local Government (within MHCLG) has been the most severely affected area with real terms funding cuts of around 60% since 2009/10.

Figure 5.4. Percentage change in departmental 'core' (non-virus) resource budgets, 2009–10 to 2021–22

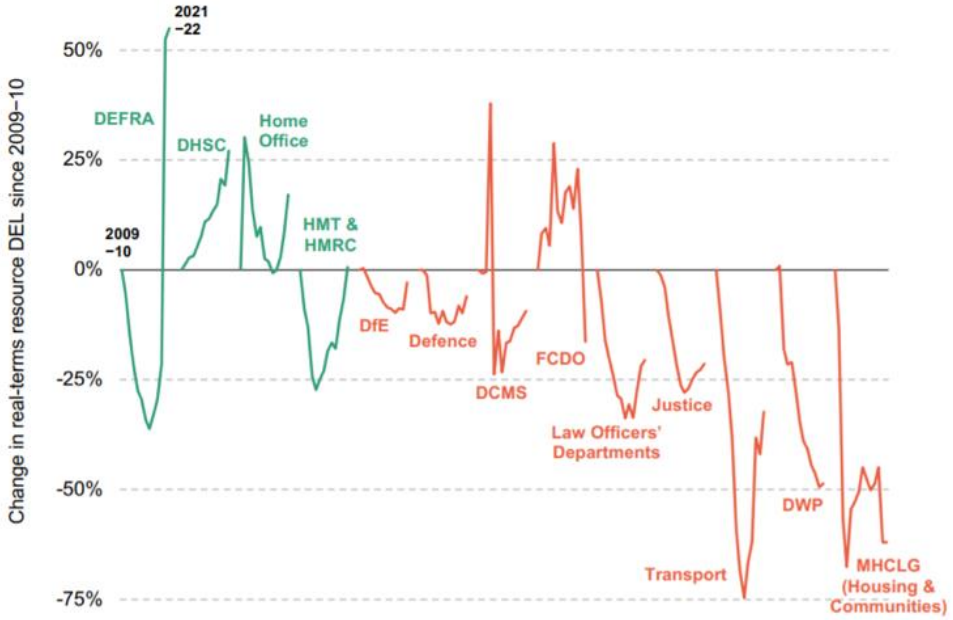

Chart referenced from: IFS Green Budget 2021 (https://ifs.org.uk/uploads/IFS-Green-Budget-2021-.pdf)

3.4. In cash terms, Local Government's core spending power (CSP) will increase by £8.5bn over the spending review period. This assumes a 2.99% increase in Council Tax (1.99% core council tax and 1% ASC precept) and £3.6bn additional grant funding (£2.0bn to fund the impact of ASC reforms on local authority costs, £1.5bn to be allocated in the settlement and £0.1bn for other specific grants).

3.5. There is considerable uncertainty around what exactly is included and excluded in the government core spending power calculations. In particular, it is not yet known how the £1.5bn additional grant funding will be split between ASC and general funding, and how it will be distributed. This increase in grant funding appears to be primarily front loaded in 2022/23 with no additional grant funding in 2023/24 and 2024/25 to fund budget pressures in those years.

3.6. The core council tax referendum threshold is expected to remain at 2%, and local authorities with social care responsibilities are expected to be able to increase the adult social care precept by up to 1% per year. The ASC precept is lower than expected. This appears to

reflect a government shift towards additional government grant to fund spending pressures with proportionately less reliance on council tax increases. Police and Crime Commissioners (PCCs) in England, including the GLA, will have a £10 council tax referendum limit in each year of the Spending Review.

3.7. The expected council tax thresholds for 2022/23 will be confirmed in the Provisional Local Government Finance Settlement in December and are subject to change. For Islington, every 1% increase in council tax equates to additional income of approximately £1m per annum.

3.8. Additional grant funding will be needed to fund a range of spending pressures and commitments following the Spending Review announcement and previous announced ASC reforms, including:

- Increase in National Insurance rates by 1.25% - a pressure to the council's General Fund of at least £2m per annum which will take effect from April 2022. There will be further pressure on ring-fenced areas of the council's budget such as the Housing Revenue Account (HRA).
- Increase in National Living Wage for those aged 23 and over by 6.6% (£0.59) to £9.50. This creates an estimated total £2.6m pressure on adult social care spot contracts, which is £1.4m higher than previous MTFS assumptions.
- Potential London Living Wage (LLW) increase – If LLW increases by the same percentage as the NLW, this would be further significant pressure for the council compared to existing assumptions. This would be in addition to the above NLW pressure.
- Latest indications that the ASC precept will be limited to 1% (c£1m in Islington's case) in 2022/23 and over the medium term.
- Risk for local authorities that the overall quantum and distribution of funding for ASC reforms will be insufficient.
- End to the public sector pay freeze with a pay rise to be agreed from April 2022 for staff across the public sector.
- General pressure on contracts and non-pay (including energy costs) which are likely to be significant with current inflation forecasts being in excess of 4% in the short term.
- Uncertainty around the continuation of grant funding streams that sit outside the core local government funding settlement but that are assumed as recurrent funding in the MTFS. For example, the former Independent Living Fund recipient grant (£1.2m).
- Continued uncertainty around the ongoing impact of COVID-19 on local authority budgets, with no additional funding in the Spending Review for this.

3.9. The Chancellor made the following key announcements around business rates. The council will be fully compensated under the business rates retention system for the impact of its retained rates income:

- Up to 400,000 retail, hospitality and leisure properties will be eligible for a new, temporary business rates relief next year. This will provide support until the next revaluation.
- The government is also freezing the business rates multiplier in 2022/23 (costing £4.6bn over five years in lost tax revenue). The business rates multiplier represents the number of pence in each pound of rateable value payable in business rates before

any relief or discounts are applied. In effect, freezing the multiplier means that business rates will not be subject to inflation.

- From 2023, a new business rates relief will support investment in property improvements so that no business will face higher business rates bills for 12 months after making qualifying improvements to a property they occupy.
- More frequent revaluations from 2023, occurring every 3 years (opposed to every 5 years). This comes with a heavy caveat given past government promises in this area. It is currently unclear what this might mean for businesses as it depends on government policy.

3.10. The government will continue to explore the arguments for and against a UK-wide Online Sales Tax, which could reduce business rates for retailers with properties in England.

4. EDUCATION, EARLY YEARS AND FAMILIES

4.1. The continuation of the £200m per annum holiday activities and food programme was announced.

4.2. An additional £4.7bn by 2024/25 for the core schools budget in England was announced, broadly equivalent to a cash increase of over £1,500 per pupil by 2024/25 compared to 2019/20. We do not presently know how this funding will be split across primary, secondary or special needs provision. However, Islington's pupil numbers are falling and so we may not benefit in overall funding terms. Draft allocations for 2022/23 received earlier this year accounted for estimated pupil reductions and indicated a small bottom-line reduction in funding.

4.3. The Spending Review will restore schools' per-pupil funding to 2010 levels in real terms. However, this effectively means that there has been no real terms growth in per-pupil funding in a decade.

4.4. The Spending Review included the following announcements in relation to education:

- Commitment to increase teacher starting salaries to £30,000 a year, as well as a long-term school rebuilding programme to rebuild 500 schools over the next decade.
- £2.6bn over the Spending Review period for new school places for children with special educational needs and disabilities (SEND) in England.
- A new package of £1.8bn will directly target education recovery and aid commitments to support disadvantaged pupils recover learning lost due to COVID-19.
- £1.4bn was announced to deliver tutoring courses for disadvantaged pupils and to expand teacher training and development.

4.5. £104m by 2024/25 was announced for reforms to unregulated children's social care and £7m by 2024/25 to improve access to services and support for adopted children and their families.

4.6. A number of announcements were made as part of a new Supporting Families programme (formerly known as Troubled Families) including investment of £500m over three years to transform 'A Start for Life' (NHS-led) and family help services. Of this, £200m will be distributed to local authorities through the settlement. It is unclear if this is in addition to or replaces existing funding.

4.7. Investment of £560m was announced in youth services in England over the next three years. This will provide up to 300 youth facilities through the Youth Investment Fund and support young people to develop skills and confidence outside school through the National Citizen Service.

5. OTHER ANNOUNCEMENTS

5.1. The taper rate in Universal Credit (UC) will reduce to 55% (from 63%) meaning claimants will be able to retain an additional 8p for every £1 of net income they earn. Additionally, the Work Allowances have been increased by £500 a year for those households with children or a member with limited capability for work on the amount they can earn before the UC award begins to be reduced.

5.2. The Public Health Grant will be maintained in real terms, so it is expected that local authorities will receive inflationary increases over the Spending Review period.

5.3. £639m of funding was announced to reduce homelessness and The Rough Sleeping Initiative and Homelessness Prevention Grant will continue. However, it is not yet known how much will be held centrally and how much will be distributed to local authorities.

5.4. A multi-year housing settlement has been announced, including £300m grant funding for mayoral combined authorities and local authorities (to unlock brownfield sites) and £1.5bn to regenerate unused land.

5.5. £37.8m additional funding was announced to tackle cyber security challenges facing councils, bringing total funding for cyber to £85.8m over the Spending Review period.

5.6. £34.5m was announced to strengthen local delivery and transparency, helping to strengthen procurement and commercial capacity.

5.7. Allocations for the first round of bids from the Levelling-Up Fund have been announced, amounting to £1.7bn out of the £4.8bn total. As part of the Levelling Up fund, five Community Diagnostic Centres will be built in London, which expand diagnostic capacity whilst targeting investment in areas of deprivation.

6. IMPLICATIONS

Financial Implications

6.1. These are included in the main body of the report.

Legal Implications

6.2. This report does not have any direct legal implications.

Environmental Implications

6.3. This report does not have any direct environmental implications.

Equality Impact Assessment

6.4. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

Appendices: None

Background papers: None

Signed by: 3rd November 2021

Executive Member for Finance and Performance

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